

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF DELAWARE**

IN THE MATTER OF THE APPLICATION)	
OF SILVER RUN ELECTRIC, LLC, FOR)	
AN ELECTRIC TRANSMISSION SUPPLIER)	P.S.C. DOCKET NO. 18-0945
CERTIFICATE OF PUBLIC CONVENIENCE)	
AND NECESSITY (Filed July 3, 2018))	

**SUPPLEMENT TO SILVER RUN ELECTRIC, LLC'S MOTION TO MODIFY
CONDITIONAL CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY**

*/S/ JAMES D. NUTTER,*_____

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Introduction

Silver Run Electric, LLC (“SRE”) hereby files this supplement to its Motion (the “CPCN Modification Motion”) to Modify the Certificate of Public Convenience and Necessity (“CPCN”) granted by the Public Service Commission on December 20, 2018, in Order No. 9316 (“Order No. 9316”). The purpose of this supplement is to advise the Commission on certain recent developments concerning the Project (as defined below) and provide further information in support of its Motion.

On July 3, 2018, SRE submitted a CPCN application for a PJM-approved electric transmission project in New Castle County, Delaware and Salem County, New Jersey (the “Project”). SRE supplemented the CPCN record with additional information on August 7, 2018 (the “Rehearing Order Supplement”) in light of the Federal Energy Regulatory Commission (“FERC”) striking down the cost allocation methodology applicable to the Project at the time of the original CPCN application submission. SRE again supplemented the record on December 12, 2018 with information regarding cost allocation, the then current status of the Project, and two alternative CPCN order proposals for the Commission’s consideration.

On December 20, 2018, the Commission granted SRE’s application for CPCN approval subject to the express conditions and limitations that the authority granted by the CPCN shall not take effect until issuance by FERC of an order that accepts and approves either the Stability Interface Method (“SIM”) or the Stability Deviation Method (“SDM”) as the just and reasonable ex ante cost allocation for the Project (the “Conditional CPCN”). The Commission further ordered that if FERC has not issued an order selecting either the SIM or SDM as the cost allocation for the Project by February 28, 2019, that shall be deemed “material noncompliance” under the Conditional CPCN for purposes of Section 203E(e)(1), and Silver Run’s Conditional CPCN shall be deemed suspended as of that date.

Unfortunately, as of the date of this filing, FERC has not issued an order establishing the cost allocation applicable to the Project. Given the possibility that the order may not be issued by the February 28, 2019 deadline specified in the Conditional CPCN, SRE is updating the record to provide the Commission with the latest Project status and respectfully requests that Commission approve certain modifications to the Conditional CPCN, as described herein and in the CPCN Modification Motion and SRE’s proposed Order. Plainly stated, the Project’s available schedule float has been expended and the only remaining option to keep this important reliability project on schedule and to prevent significant increases in the Project’s overall cost is to extend the February 28, 2019 deadline contained in the Conditional CPCN and for SRE to proceed with certain critical path construction activities, which will be limited in time, cost, and scope.

It is still possible that FERC will issue a conforming cost allocation order on or before February 28, and that remains the optimal result in terms of preserving the Project’s budget and schedule. This would permit SRE to immediately release its contractors to commence full construction of the Project, which in turn will enable SRE’s contractors to plan for and manage construction of the project through to its completion (without needing to plan for any other contingencies). In the event FERC does issue a cost allocation order on before February 28 that meets the requirements of the Conditional CPCN, then the Modification Order will not be required and can be considered moot. However, given the possibility

that FERC will not act by that date, SRE believed it to be prudent to make the filings necessary to add the CPCN Modification Motion to the agenda for the Commission's March 5, 2019 meeting, so that the Commission is in a position to consider a modification to Order No. 9316 at the first meeting following the suspension date of the current Conditional CPCN.

Cost Allocation Status

In its Order Granting Rehearing and Establishing Paper Hearing Procedures, issued on July 19, 2018 in FERC Docket EL15-95 (the "Rehearing Order"), FERC requested that further information be provided by stakeholders within 60 days regarding the three cost allocation methods referenced in the Rehearing Order and stated its intent to use that information to decide among those three methods. It is still possible that FERC will issue an order reflecting that decision on or before February 28. SRE continues to believe that the FERC will confirm the cost allocation selection as soon as it is practicable for FERC to do so and SRE is not aware of any reason why FERC would not be in a position to issue an order prior to the new April 30, 2019 deadline specified in the CPCN Modification Motion.

Following the Commission's order granting conditional CPCN approval, SRE filed the Commission's order in the FERC cost allocation docket (FERC Docket EL15-95). In doing so, SRE further reinforced to FERC the time sensitivity of the issuance of FERC's cost allocation order and SRE's need to move forward with construction in a timely manner in order to minimize costs to ratepayers and maintain the required in-service date for the Project.

Project Cost

The Project cost analysis presented in SRE's December 12, 2018 filing to the Commission remains unchanged as of the date of this filing. Specifically, the cost impact of the project to Delaware remains as presented for the three discrete and detailed cost allocation alternatives as to which FERC requested additional information in its Rehearing Order.

Project Status Update

Since the December supplement and consistent with the Commission's Order No. 9316, SRE has not been able to fully release its contractors to commence construction of the Project. However, in order to maintain the Project's in-service date and meet the other requirements of the Designated Entity Agreement between SRE and PJM, SRE has continued to prudently and diligently progress certain necessary activities to minimize the cost impacts arising from the delay in the effective date of the Conditional CPCN. Despite the limited progress made under the Conditional CPCN approval, the Project is now at a juncture where, without authority to commence certain key critical path construction activities, Project costs will begin to rise significantly and, most importantly, SRE cannot continue to delay its contractors without impacting the Project's critical path schedule, ultimately delaying the Project's in-service date.

Critical Path Schedule

When SRE filed its December supplement, it presented two alternative draft orders for the Commission's consideration: (i) a limited CPCN that would allow SRE to commence certain construction activities to maintain both schedule and savings for ratepayers and (ii) a conditional CPCN that would

not be effective unless and until FERC selected either the SIM or SDM as the reasonable and just *ex ante* cost allocation for the Project.

These proposals were presented in good faith under the expectation that FERC would issue its cost allocation order before the end of February 2019. While the construction schedule was running short in December, SRE had been able to maintain about two months of float for the most critical construction scopes. Unfortunately, the delay in the issuance of a FERC order confirming cost allocation has consumed the Project's construction float and, in order to maintain the Project's budget and meet the required in-service date, SRE must move forward with certain construction activities.

Specifically, SRE's contractors must immediately proceed with erection of the in-river cable transition and vessel protection structures and begin construction of the New Jersey cable transition structure and transmission foundations¹. If this work cannot proceed, the cable installation will be delayed, significantly raising costs to consumers and delaying the Project's in-service date. Additionally, SRE's contractors must begin grading and foundation work at the Silver Run substation or the Project faces similar cost increases and in-service delays. SRE estimates construction costs for these critical path activities that would be incurred for the full duration of the limited authority granted pursuant to the CPCN Modification Motion sought would not exceed \$6.5 million².

The above work scope is intended to preserve the Project's current budget and schedule while at the same time minimizing the additional amount spent towards construction activities pending the receipt of FERC's order. To minimize costs, the scope specifically excludes cable shipment and transit to the United States of the cable installation spread (and therefore cable installation activities), which are scheduled to begin in May 2019. Also explicitly excluded from the authorization sought is construction of the Delaware overhead transmission line scope, which has a shorter schedule and is not planned to begin until late May 2019.

Proposed Motion To Modify Conditional CPCN

SRE continues to believe that the case for issuing a CPCN to the Project is self-evident, with an estimated \$10 million in annual load savings in Delaware³, approximately \$0.5 million in annual property taxes in New Castle County, payments to State agencies totaling \$195,000 up-front and \$122,000 annually, solving the grid reliability need identified by PJM, and the increased system resiliency benefits compared with a range of expected FERC cost allocation outcomes for the Project of approximately 4-7% to Delaware. On this basis, the Project is clearly demonstrated to be in the public interest for Delaware.

¹ While construction work in New Jersey is outside the scope of the CPCN, SRE has endeavored to limit all Project costs during this phase while the FERC order remains outstanding. Similarly, SRE intends to continue prudently undertaking development, engineering, and procurement activities necessary to support the Project's current budget and schedule.

² This value covers only the estimated incremental construction costs for critical path construction activities in Delaware as described in Attachment A.

³ \$17.04 million for the Delmarva Zone as estimated by PJM x 60% = \$10.2 million

SRE also continues to seek solutions to best minimize Project cost increases and delays to the required in-service date. SRE's CPCN Modification Motion is intended to provide the best outcome for Delaware and SRE under the current circumstances – allowing the Project, which itself is clearly in the public interest, to proceed in a manner that best suits the public interest.

Specifically, SRE's CPCN Modification Motion seeks to modify the Conditional CPCN in the following key ways:

- Extend the deadline for issuance of the FERC cost allocation order from February 28, 2019 to April 30, 2019. As under the current version of the Conditional CPCN, in the event a FERC order meeting the requirements of the Conditional CPCN is not issued by the new date, the Conditional CPCN will be automatically suspended and the Commission will have the ability to take whatever further action it deems appropriate with respect to the Conditional CPCN.
- Authorize SRE to undertake critical path schedule construction work expressly limited to the scope of work contained in Attachment A hereto.
- As is currently the case, the Conditional CPCN would become fully effective (and the above limits would cease to apply) immediately upon FERC's issuance of an order setting the SDM or SIM as the cost allocation applicable to the Project.

Conclusion

As outlined in the foregoing, SRE needs to immediately release certain critical path construction activities to maintain the Project's current budget and completion schedule. Although Project costs have already increased since the issuance of the Conditional CPCN on December 20, 2018 as SRE has awaited FERC's cost allocation decision, failure to release these critical path construction activities would lead to significant cost increases to ratepayers and would call into question whether it is possible for Project to be completed by the Project's required in-service date. The proposed CPCN Modification Motion allows the Commission to continue to retain control over the Project in the event FERC fails to act by the specified deadline in a manner consistent with its clear direction to date while at time same time allowing SRE to maintain the Project's budget and required in-service date.

Attachment A

Authorized Limited Construction Scope⁴

Delaware In-River Transition Structure and Associated Vessel Protection Structure

- Complete subsurface and foundation work;
- Erect transition structure;
- Concrete placement for vessel protection structure;
- Accessory installations on transition structure and vessel protection structure; and
- Other minor scopes necessary to support the foregoing.

Silver Run Substation Grading and Foundations

- Mobilize equipment, crews, and construction support for the Silver Run Substation scope;
- Prepare construction yard adjacent to substation site;
- Grade substation site;
- Begin installation of foundations; and
- Other minor scopes necessary to support the foregoing.

⁴ In addition to the construction activities described herein, SRE intends to prudently undertake construction work in New Jersey and continue development, engineering, and procurement activities necessary to support the Project's current budget and schedule